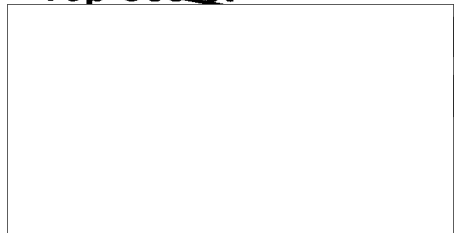




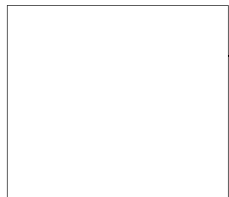
**Director of
Central
Intelligence**

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National Intelligence Daily

**Saturday
4 July 1987**



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HAITI:**Ruling Council Backs Down**

The ruling council's decision on Thursday to revoke its electoral decree has dampened public protests in Port-au-Prince, but the situation is likely to remain tense. [redacted]

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The council's action restores full authority to the independent electoral commission to oversee elections, according to press reports. In addition, the government's Information Minister, who appeared arrogant and unresponsive to popular demands at a press conference last week, was forced to resign. [redacted]

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Although Port-au-Prince was calm yesterday and some businesses reopened, a general strike remains in effect in other major cities, according to press reports. In addition, some opposition groups are calling for protests on Monday to force the council to resign. [redacted]

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The council is uncertain how to repair its credibility and reverse the deteriorating security situation. [redacted] In a move probably designed to lessen tensions, council member General Regala says he is willing to consider lifting the ban on the leftist union, which called the general strike late last month, even though he believes Communists and other leftist agitators are responsible for the current turmoil. [redacted] Regala reportedly also believes the violence could still worsen [redacted]

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Communist leader Theodore views the recent unrest as an opportunity for his party and would like to see the violence escalate, [redacted] The Communists reportedly are seeking to incite violence against US diplomatic and military personnel and to blame the US for the council's attempt to take control of the election process. The protests have taken an anti-US slant this week, [redacted]

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Comment: The council's restoration of the commission's electoral authority probably is the most effective step it could have taken to calm unrest and put the transition to civilian rule back on track. The council's commitment to democracy, however, is likely to remain permanently in question because many Haitians now believe the government is willing to disregard the constitution. The responsible image the Communist Party has displayed publicly during the standoff between the council and the commission probably will help it gain additional popular support. [redacted]

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SYRIA:

Pressing Iran's Revolutionary Guard

The closure by Damascus of the Iranian Revolutionary Guard base in Syria underscores the Syrians' growing impatience with Hizballah's failure to release Charles Glass.

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Comment: Hizballah leaders want to avoid a showdown with Syria, which would severely threaten their freedom to operate in Lebanon. Releasing Glass would lead to pressure to free other hostages, however, and undercut Hizballah's efforts to maintain plausible deniability of involvement in hostage taking. By increasing attacks on Israeli and Christian targets, Hizballah hopes to demonstrate to Damascus its utility as an ally

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PANAMA:**Noriega Holding the Line**

Military strongman Noriega has taken steps to avoid escalating tensions with the US but could reduce restraints on anti-US violence if he perceives growing US pressure. [redacted]

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Panama issued a conciliatory response to the US protest of the violent demonstration at the Embassy last Tuesday and agreed to pay for damages, according to press reports. Also, the Foreign Ministry said Panama would not break relations with the US. [redacted]

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Meanwhile, students and bank employees have engaged in numerous antigovernment protests in the capital, but the unrest has not equaled that of the protests in June. [redacted]

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[redacted] some 500 to 1,000 students stoned the ruling-party headquarters, and at least 100 students were injured yesterday in clashes with police at the University of Panama, forcing the suspension of classes. The Chamber of Commerce yesterday called for a three-day strike to force an investigation of Noriega. [redacted]

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The regime has shut down a private radio station that encouraged opposition protests, and officials of a government-owned bank have been fired for refusing to participate in progovernment demonstrations. [redacted]

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[redacted] the police stood by while armed government supporters firebombed businesses belonging to opposition leaders and ransacked the Christian Democratic Party headquarters. [redacted]

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Comment: The military appears to have the situation under control for now and is likely to act harshly to check further unrest. Continuing student violence most likely will prompt the government to close more schools. Although Noriega appears reluctant to reimpose the state of emergency for fear of damaging Panama's image, continued opposition activity could force his hand. [redacted]

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[redacted] he wants to avoid adding to tensions with Washington and undercutting Panama's campaign to gain diplomatic support. [redacted]

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JAPAN:**Reacting to Toshiba Diversion**

With the highest levels of the Japanese Government anxious to put the Toshiba diversion case to rest, Tokyo has outlined steps to strengthen its export control system. US pressure will probably play a key role in determining whether Tokyo follows through on efforts to control diversion of advanced technology over the long term. [redacted]

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Prime Minister Nakasone told a Cabinet meeting this week he wanted action to prevent another case like the Toshiba diversion, according to the Japanese press. Following the meeting, Trade Minister Tamura announced a package of measures designed to strengthen the Ministry's export licensing and inspection system. MITI will increase the size of its staff responsible for inspecting export applications and will bring in technical experts to assist the license review process. MITI also plans to establish a program to educate industrial organizations and companies about Japan's export control system.

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According to the US Embassy, Tokyo also is considering introducing legislation that would allow the government to augment administrative and criminal penalties for diverters and would extend the statute of limitations. [redacted]

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Comment: Widespread publicity in Japan about the Toshiba affair and the possibility of US sanctions continue to drive Tokyo to implement damage-limitation measures. The steps recently announced by the Trade Minister will loom large in stemming illegal technology sales to the USSR and its allies. [redacted]

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The adoption of laws that go beyond the range of administrative actions now available to punish diverters would be even more significant. Such legislation would be controversial in the Diet, however, where the government is already contending with several difficult issues. Pressure from Washington probably will be pivotal to a continued Japanese commitment to carry through on proposed improvements in the export control system over the long term. [redacted]

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PERSIAN GULF: Ship Attacks at Record High

Iran has been responsible for nine of the 13 attacks on ships since the strike against the USS Stark in mid-May. A Japanese-owned but Panamanian-flagged cargo ship and a Danish tanker refused to call at Kuwaiti ports earlier this week. Indian- and Japanese-flagged ships have already stopped sailing into the northern Persian Gulf. Two US-owned tankers were scheduled to depart ports in the northern Gulf Thursday—one from Kuwait, the other from Saudi Arabia. [redacted]

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Comment: Ships are sailing as close as possible to the western coast of the Gulf to avoid attack. All three ships attacked by Iran this week, however, were sailing close to the Saudi coast. All the Iranian attacks in the April-June quarter were directed against ships bound to or from Kuwait. Iraq has attacked mostly Iranian-flagged ships or chartered tankers. [redacted]

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SOUTH KOREA: Ruling-Party Offensive

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The surprise visit of ruling-party chairman Roh Tae Woo to opposition leader Kim Young Sam on Thursday—during which the two agreed to move quickly on revising the constitution—is one of several initiatives the ruling camp has taken since President Chun approved Roh's reform package on Wednesday. Press reports indicate the ruling party has formed a five-man committee to draft its proposed constitutional amendment. The party also is considering compensation for families of victims of the bloody Kwangju riots that followed President Chun's declaration of martial law in 1980. For their part, Kim Young Sam and Kim Dae Jung announced Thursday that opposition parties are unified, but the US Embassy says there is friction between the two leaders over Kim Dae Jung's demand that Chun form a "pannational cabinet" to oversee the implementation of Roh's package.

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Comment: Roh's effort to get constitutional revision under way quickly suggests he recognizes the need to show progress on reform to skeptical South Koreans. His move also puts pressure on the Kims to respond. The ruling party's tacit acceptance of some responsibility for the Kwangju incident demonstrates that it is determined to improve its image. Disunity within the opposition could play into the ruling party's hands—especially if Kim Dae Jung's hardline demands undermine interparty efforts to hammer out an agreement on constitutional revision.

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NIGERIA: Plan for Civilian Rule25X1
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Nigerian President Babangida on ^{1 July} ~~Wednesday~~ announced the ruling military council's five-year plan to transfer power to civilians. The transition program calls for individuals to run in local elections this year, for the ban to end on civilian political parties in 1989, and for a national census before the military's complete withdrawal from power in 1992. The plan stipulates an executive president, a two-party system, and a bicameral federal legislature, but it rejects a proposal by a government-appointed civilian political commission for a socialist economy. Babangida warned that any disruptions of the transition process would be viewed as sabotage.

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Comment: Although many of the provisions are drawn from the now-suspended 1979 constitution, a number of contentious issues—including revenue sharing and the creation of new states—must be addressed between now and 1992. The decision to take a new census could be particularly troublesome; past censuses have sparked charges of overcounting certain ethnic groups and have helped to stimulate coup plotting. Babangida clearly hopes that limiting the number of political parties to two will forge alliances across Nigeria's sharply drawn ethnic, regional, and religious lines and will break the pattern of instability under earlier civilian regimes.

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In Brief**East Asia**

7/8 — Small bombs exploded early today at USIS library, International School in Manila with minimal damage . . . left nationalists, Muslim separatists, Marcos loyalists, others intent on souring US-
Philippine relations are all possible suspects. []

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Europe

7/8 — US Embassy in **Spain** reportedly surveilled three times between mid-May and late June . . . terrorists may be preparing mortar attack, like those in February, April . . . US security personnel, Spanish authorities taking extra precautions this weekend. []

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7/9 — **French** watching **Iranian** Embassy, hoping to arrest official implicated in terrorist network . . . publicity spurring police to act despite Foreign Ministry's reluctance, retaliatory confinement of French officials in Tehran. []

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Middle East

7/9 []

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7/8 — **Israel** to help **Spain** modernize Spanish Air Force's Mirage III fighters, according to press . . . four-year deal worth at least \$40 million includes modifications of airframes, installation of US radar computers from Spain's F-18s. []

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[] Moored contact mine recovered near **Kuwait** harbor is of modified **Soviet** design, uses more explosives, according to US Navy . . . easy for small craft to lay . . . []

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Terrorism

7/8 []

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Americas

7/8 — Several hundred **Bolivian** coca farmers protesting proposed eradication program . . . surrounded US Drug Enforcement Administration camp in coca-growing Chapare region for two days . . . demanding withdrawal of US antinarcotics advisers. []

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Special Analysis**NICARAGUA:****Widening War**

The intensity and scope of the war in Nicaragua have grown significantly over the past six months, reflecting the insurgents' success in infiltrating and maintaining a large number of troops in Nicaragua and the Sandinistas' aggressive reaction to the larger rebel presence. While the Sandinista military has been stretched thinner, the regime remains firmly in control of the Pacific heartland and all major population centers. Guerrilla activity is likely to remain high this summer and probably will compel the regime to mobilize more reserves and intensify its efforts to impede insurgent resupply.

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~~The main rebel force — which has a total armed strength of some 14,000 — has maintained some 12,000 combatants in Nicaragua since April, [redacted] About 2,000 rebels remain in Honduras training, convalescing, or assisting in establishing a new headquarters near San Andres de Bocay. At least another 2,000 insurgents belonging to Indian and other insurgent factions operate along the Caribbean coast and in the far south, but their activity has been minimal.~~

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reportedly
The vulnerable economic infrastructure has been a major target for the rebels, who have caused considerable disruption and tied down more Sandinistas for guard duty around major installations. Sabotage of electric and telephone lines, particularly in the northwest, has cut power and communications for several days each month. [redacted] Ambushes and the demolition of small bridges have probably disrupted road traffic. Several agricultural cooperatives, at which militia and regular troops are often posted, have also been destroyed. [redacted]

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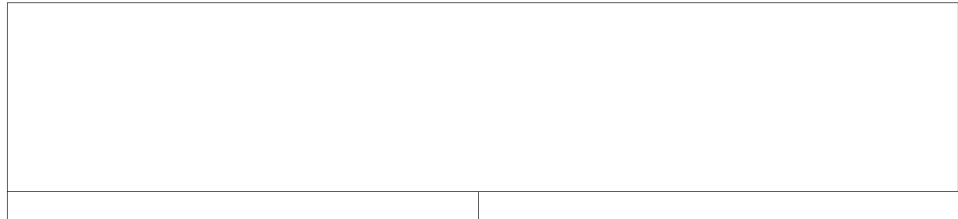
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The Regime's Capabilities

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The Sandinistas have taken several steps this year to improve their military capabilities. To speed their responses to rebel attacks, they have activated helicopter forward command posts and built or upgraded new supply depots, airfields, roads, and forward bases,

The government has forcibly relocated thousands of peasants from the southeast to create free-fire zones and to deny popular support to the insurgents. The regime is also creating a band of fortified cooperatives across central Nicaragua as a barrier to rebel movement westward.

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Outlook

Rebel efforts to push farther westward this summer are likely to be slowed by the less favorable terrain and by the Sandinistas' strong security presence. Continued heavy fighting and widespread sabotage in the northern and central regions, however, may force the regime to dispatch more reserves to those areas. The Sandinistas may also acquire more advanced antiaircraft guns, in addition to air-surveillance radars delivered recently from the USSR, to increase the threat to the rebels' resupply lifeline.

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The overall level of fighting probably will rise further this year. Both the rebels and the Sandinistas will improve their capabilities, but neither side is likely to gain a decisive advantage. The rebels will remain an elusive and durable force, but the Sandinistas will continue to hold the edge in mobility and firepower.

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Chernobyl', USSR

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Chernobyl's Slow Recovery

More than 20,000 people, mostly army reservists, are working in the 18-mile evacuation zone under difficult and often dangerous conditions. In addition to decontamination work, the military is responsible for construction and road building. The workers do not live in the zone but in a hastily constructed settlement on its border.

Only 300 of the 92,000 evacuees have been permitted to return to two of the decontaminated villages in the evacuation zone. A local official told a Western reporter that plans to decontaminate many other settlements have been abandoned. [redacted] Pripyat, the town that housed nearly 50,000 plant workers and their families, is completely uninhabited. Large areas of the town are being used to store contaminated cars and other machinery.

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25X1**Special Analysis****USSR:****Chernobyl' Trial Could Backfire on Moscow**

on 5 July
The trial of the three plant managers that begins ~~tomorrow~~ reportedly will include Western journalists and is likely to refocus critical world and domestic attention on the Soviets' handling of the accident.

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A handful of Western journalists who visited the zone for the first time last month reported a much grimmer situation than that portrayed in regime statements. Even Soviet reporters have complained that authorities are tightly controlling information on Chernobyl'; they too may file critical coverage, in the spirit of *glasnost*.

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Rather than enable the regime to close the book on the accident, the trial may create pressure for more trials and information on long-term consequences of the accident. Recently published letters from Chernobyl' workers demanded an investigation of city officials in Kiev and Pripjat' for criminal negligence. The accused probably will receive stiff sentences, but the public is unlikely to accept they are the only ones to blame.

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The trial may also feed domestic concerns about the safety of the Soviet nuclear industry and encourage distrust of bureaucrats. ~~A Belorussian writer called for more openness and local public control over decisions on nuclear power.~~ A petition by some 60 Ukrainian scientists opposing the completion of units 5 and 6 at Chernobyl' was about to be published when Moscow decided to shelve the expansion plans.

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Special Analysis**GULF
COOPERATION
COUNCIL-USSR:****Courting a New Friend**

The threat posed by Iran in the Persian Gulf and regional uncertainties about US policies have offered Moscow opportunities to expand its influence among Gulf states. These states have not ruled out a greater Soviet presence in the region in the future, but their pro-Western orientation and lingering suspicions of Soviet intentions will limit the extent of Gulf-Soviet cooperation.

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Shifting perceptions among Gulf states about the Soviet threat to regional stability have created openings for Moscow to improve relations with several of the states. General Secretary Gorbachev's more active diplomacy and Moscow's efforts to alter its international image have eased Gulf suspicions of Soviet intentions in the region. To many Gulf states, Moscow has demonstrated that it can play a constructive role in regional politics by seeking reconciliation in Afghanistan and by encouraging the new regime in South Yemen to maintain good relations with its neighbors.

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Gulf leaders probably believe the USSR has tried to avoid a provocative role in the Iran-Iraq war. Moscow has contrasted its lower military profile and calls for international negotiations with the perception that US policy threatens Iran. The Soviets have stated they do not plan to augment their naval presence in the Gulf in the wake of heightened tensions.

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Gulf disappointment with a range of US policies in the region has also worked in Moscow's favor. US delivery of arms to Iran, Washington's refusal to supply advanced US military equipment, and the debate in the US over the Kuwaiti reflagging plan have been troublesome to the Gulf states.

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Slow Progress

Moscow has slowly made gains in the region. The decisions of the United Arab Emirates and Oman to establish relations with the USSR in 1985 and of Kuwait to charter Soviet tankers are the clearest evidence of shifting Gulf perceptions of the Soviets. Saudi Arabia appeared to have relaxed its reluctance to expand contacts with the USSR when it sent Petroleum Minister Nazir to Moscow last January. Soviet relations with several Gulf countries have also gradually expanded in areas of economic cooperation and arms negotiations. In May, both Kuwait and the UAE sent military delegations to Moscow to discuss possible purchases.

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The Gulf states probably believe some of their long-term security interests can be better served by improved relations with the USSR. Kuwait's approach of playing Washington against Moscow to gain protection for its shipping has demonstrated to other Gulf states that striking a balance between Washington and Moscow can pay dividends. Others may be more willing to use their expanding contacts with Moscow to put pressure on the US for security assistance. Some Gulf states believe that Moscow's ties to both Iraq and Iran may be useful in negotiating an end to the Iran-Iraq war.

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Nonetheless, the Gulf states remain cautious about Soviet intentions in the region. These states already believe the growth in superpower presence has raised tensions. They still may be concerned that Moscow will try to increase its military involvement in the Gulf, despite assurances to the contrary. The USSR's failure in May to protect its merchant ship from an Iranian attack has done little to reassure Gulf leaders that Moscow could be an effective guardian of Gulf shipping.

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Prospects

The USSR will probably continue to make gradual gains in relations with moderate Arab Gulf states. The Soviets will use their blossoming relations with Kuwait, Oman, and the UAE to demonstrate their acceptability and commitment to Gulf security. Moscow will try to avoid an open confrontation with Iran and is likely to move cautiously in expanding its military presence in the Gulf.

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Gulf states harbor no illusions about where their security and economic interests lie, however, and are unlikely to change their moderate, Western orientation. A desire to avoid jeopardizing ties to the US, differences over Afghanistan, and well-established preferences for investment and trade with the West will limit the growth of Gulf-Soviet relations. The Gulf states probably would be willing to accept a greater Soviet diplomatic and economic presence in the region, however, as long as they are not called on to support an increase in the Soviet military presence.

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Brasilia's Debt Proposal

Finance Minister Bresser recently outlined five conditions that commercial bankers must meet before Brazil will resume paying interest on its debt. They are:

- All the interest that Brasilia has not paid since its moratorium on 20 February plus half its interest due next year—a total of \$7.3 billion—must be refinanced through a combination of new money, conversions of debt to equity, and capitalization of interest.
- Loans must be rescheduled at lower interest rates; repayment and grace periods must be extended.
- Creditors must allow Brazil's reserves to increase by \$4 billion above the current level.
- Part of the \$6 billion of interbank credit lines must be converted to short-term trade credits.
- About 500 small international creditor banks must be excluded from the negotiating process.

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Special Analysis

BRAZIL:**Outlook Bleak for New Economic Plan**

Brasilia's new economic stabilization program, the Bresser Plan, which was announced last month, avoids many of the pitfalls that ruined the Cruzado Plan last year, but financial problems and political obstacles threaten its implementation. Brazil's economic outlook this year is grim; growth is declining and inflation rising. Nevertheless, the program will pave the way for a resumption soon of Brasilia's debt negotiations with international commercial banks. Brazil is not likely to lift its moratorium on interest payments until an agreement is reached with the bankers, probably not before the end of the year.

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Price decontrol, a burgeoning fiscal deficit, and the lack of a cohesive economic strategy during the first half of this year have resulted in record high inflation, estimated at more than 160 percent through June. Real wages and consumer demand plummeted and bankruptcies skyrocketed, in part because of prohibitively high interest rates.

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Under pressure for action to stem the decline, President Sarney and Finance Minister Bresser announced a program designed to fight inflation. The program is technically sounder than the Cruzado Plan although fiscal policy remains a weak link. According to press reports, Bresser believes that his measures will reduce the budget deficit to 3.5 percent of GDP this year; it had previously been expected to be 7 to 10 percent. Wage restraints and high public tariffs will reduce pressures behind the deficit; the recent devaluation is helping to spur recovery in the trade accounts.

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Fiscal Austerity?

Many of the public works projects that have been postponed were not funded in the 1987 budget, however, so the claimed savings are illusory. Moreover, the promised elimination of the wheat subsidy will be partially offset by a new, federally funded program to distribute bread to the poor.

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With domestic debt-servicing costs soaring, tax revenues declining with the economic slowdown, and transfers to state enterprises and governments programed to rise, the budget deficit this year will probably be at least 5 percent of GDP, as compared with 2.9 percent last year. Brasilia has often pledged but never implemented efforts to control monetary expansion. With no external financing to cover shortfalls likely this year, the Central Bank will probably resort to printing money to cover the deficit.

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The Bresser Plan Versus the Cruzado Plan

The broad features of the Bresser Plan are similar to those of the Cruzado Plan of February 1986, but the new program is designed to avoid such problems as overheating consumer demand, widespread shortages, loose fiscal and monetary policies, and an overvalued currency that sank the program last year.

Measure	Bresser Plan	Cruzado Plan
Price Freeze	Maximum of 90 days, to be followed by monthly adjustments based on past inflation.	No defined duration when announced; remained in place 10 months.
Wage Indexation	Wages frozen for 90 days, followed by monthly adjustments based on the average rate of inflation in the previous quarter.	Initial wage hike of about 10 percent, followed by adjustments each time inflation reaches 20 percent.
Fiscal Austerity	\$10 billion of public works projects postponed, \$2 billion of subsidies cut, public sector tariffs raised 30 percent.	None.
Monetary Control	Instituted reforms of public finance operations.	None.
Exchange Rate	Devalued by 9.5 percent; daily minidevaluations maintained.	Frozen for nine months.

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Political Obstacles

The US Embassy reports businessmen and consumers doubt the program will work. Labor is protesting the new wage adjustment provision through strikes and demonstrations, some of which have turned violent. With social unrest growing, the Brazilian National Congress may threaten to withdraw its already tenuous support for Sarney if he does not agree to restore full wage indexation, and state governors affected by the postponement of major development projects may do the same. []

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According to press reporting, many businesses already are defying the price freeze. Brasilia does not have adequate resources to enforce it and, unlike last year, will probably not have the assistance of the public in reporting violations. Furthermore, the government will be obliged to lift the freeze at approximately the same time the constituent assembly will vote on the new constitution—a bad time for inflation to rise. []

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Bleak Outlook

Economic performance on nearly all fronts will almost certainly deteriorate this year. The rate of inflation is likely to be more than 300 percent. The fall in real wages will cause consumer demand to continue to contract, resulting in sharply lower growth of about 3 percent. The trade surplus appears to be recovering from low levels early in the year, but it will probably fall short of the surplus of 8.4 billion last year. []

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Adoption of the stabilization program paves the way for serious debt rescheduling negotiations to begin, probably late this month. The talks are likely to be lengthy, however, and the impasse probably will continue through the end of the year. []

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Brasilia's demands for financial assistance are extensive. The recent additions to loan loss reserves by major US banks are likely to complicate Brazil's efforts to arrange for a large sum of new money. Moreover, creditors will probably want to see progress under the Bresser Plan and will demand that Brasilia enter a formal IMF program before trying to syndicate a loan. []

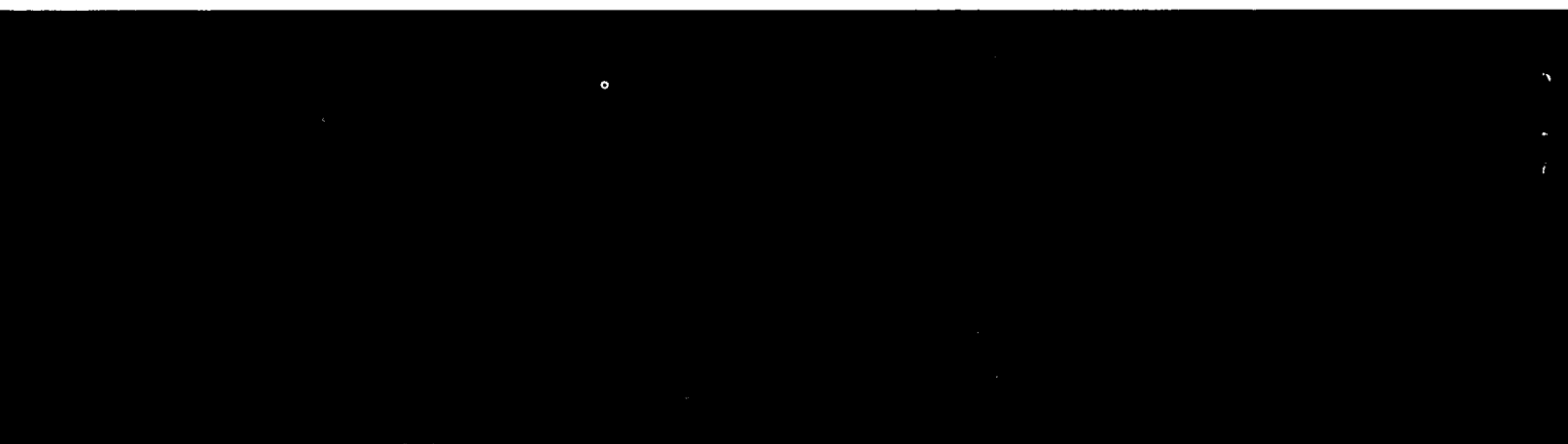
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